



**Ealing Borough Council**  
**Town Hall**  
**New Broadway**  
**London W5 2BY**

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## **Audit Committee**

**Venue:** Committee Room 3, Town Hall, New Broadway, W5 2BY  
**Date and Time:** Wednesday, 30 May 2018 at 19:00

**MEMBERSHIP:** Councillors: To be confirmed following Annual Council.

# **AGENDA**

**Open to Public and Press**

- 1 Apologies for Absence**
- 2 Urgent Matters**
- 3 Declarations of Interest**
- 4 Matters to be Considered in Private**
- 5 Minutes**

To approve as a correct record the minutes of the meeting held on 7 March 2018.

**Minutes of the Meeting of 7 March 2018**

**3 - 10**

- |          |   |                |
|----------|---|----------------|
| <b>6</b> | <b>Annual Governance Statement Report for Audit Committee</b>                   | <b>11 - 30</b> |
| <b>7</b> | <b>Performance Report Internal Audit and Investigations for Audit Committee</b> | <b>31 - 48</b> |
| <b>8</b> | <b>Performance Report Risk Management Report</b>                                | <b>49 - 58</b> |
| <b>9</b> | <b>Date of Next Meeting</b>   |                |
- The next meeting will be held on 25 July 2018

**Paul Najsarek, Chief Executive, 21 May 2018**

## **Audit Committee**

Wednesday 7<sup>th</sup> March 2018 at 7:00 pm

**Present:** Councillors Murtagh (Chair), Manro, Murray, Sabiers, and Young.

**In Attendance:** Ross Brown (Director of Finance), Pat Main (Interim Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Neil Thomas (External Auditor KPMG), Ewan Taylor (Audit and Risk Manager), Steve Lucas (External Auditor KPMG), Tim Hooper (External Auditor KPMG) and Janine Jenkinson (Democratic Services).

**1. Apologies for Absence**

There were none.

**2. Urgent Matters**

There were none.

**3. Matters to be Considered in Private**

Agenda Items 6 and 11 contained appendices which held information that was exempt from disclosure by virtue of Paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972. The appendices were not considered in private, as it was not necessary to discuss the details of the exempt information provided.

**4. Declarations of Interest**

There were none.

**5. Minutes**

In relation Item 8 – Annual Audit Letter and Progress Report (KPMG) the Director of Finance reported that the Annual Audit Letter 2016/17 had been circulated to all councillors on 7<sup>th</sup> December 2017.

In relation to the recruitment of an Independent Member, the Director of Finance explained that the position had been advertised on 1 March 2018, the closing date for applications being 19 March 2018. He explained that applications would be long listed, and an interview process would follow. Applicants would be interviewed by himself, the Head of Audit and Investigation and the Chair of the Audit Committee. It was anticipated that interviews would be held week commencing 9 April 2018.

**Resolved: That the minutes of the meeting held on 29<sup>th</sup> November 2017 be agreed and signed by the Chair, as a true and correct record.**

## 6. Treasury Management Quarter 3 Update 2017-18

The Interim Head of Corporate Finance presented a report which provided the Committee with an update on the Council's borrowing and investment activities for the quarter ending 31 December 2017.

Over the reporting period, all treasury management activities had been carried out in accordance with the approved limits. The report also provided information on the prevailing economic conditions over the reporting period.

Members' attention was drawn to the following key points:

- All treasury management activities had been executed by authorised officers within the parameters agreed by the Council.
- All investments had been made to counterparties on the Council's approved Counterparty Investment list and within agreed limits.
- No long-term borrowing had been raised during the period reporting to 31 December 2017. Borrowing had since been raised in February 2018.
- The existing long term debt decreased from £496.806 million to £490.788 million; there had been Public Works Loan Board (PWLB) maturities of £11.393 million in period to 31 December 2017.
- The Council earned an average investment return of 0.359% on short term investments, outperforming the rolling average 7 Day London Interbank Bid Rate (LIBID) rate of 0.121%.
- The Council currently held no direct investments with overseas financial institutions, though these were held indirectly through the Council's Money Market Funds (MMF) exposure.
- The Housing Revenue Account (HRA) debt was managed separately from the General Fund debt.

In relation to recommendation 1.3 set out in the report, the Interim Head of Corporate Finance pointed out that the date of the Council's Treasury Management Strategy had been incorrectly printed as '2017-18' and should instead read '2018-19'.

Members' attention was drawn to Table 1 set out in section 4.10 of the report, which listed Interest Rate Forecasts. The Interim Head of Corporate Finance reported that Link Asset Services had undertaken its last review of interest rate forecasts on 13 February 2018, after the quarterly Bank of England Inflation Report and Monetary Policy Committee meeting.

In relation to the overall Treasury Cash Flow position as at 31 December 2017, the Committee noted that the Council's cash flows were maintained through borrowing and investment activities on the wholesale money market and the net investment position as at 31 December 2017 was £82.340 million.

Temporary borrowing of £20.000 million was raised during the period to cover short term cash flow requirements. There were no repayments during the period therefore; £20.000 million of temporary borrowing was outstanding at 31 December 2017.

Members were advised that the Council continued to place investments with several local authorities; the investments were considered to be of high credit quality and were therefore on the Council's approved list of counterparties. The Council had nine investments placed across several councils totalling £32.000 million as at 31 December 2017, details were set out in Appendix 1 of the report.

The Interim Head of Corporate Finance reported that total long term borrowing stood at £490.788 million (including Mortlake Crematorium Board Loan) as at 31 December 2017. General Fund and HRA borrowing had decreased by £4.423 million overall for the period ending 31 December 2017.

In response to the Bank of England Base Rate increase, the Council had raised an additional £15.00 million of new long term borrowing to take advantage of the low PWLB rates before the central banks return to a more normal monetary policy which would see an increase in Gilt yields and PWLB rates.

Councillor Manro asked if Mortlake Crematorium was currently operating at a financial loss. In response, the Director of Finance advised that the crematorium was a separate legal entity, which held its own accounts. He agreed to provide an update to the Committee on the background to the Mortlake loan arrangement.

In relation to paragraph 5.14 of the report Councillor Sabiers asked when the Committee would be provided with an update regarding the changes to the rules around Money Market Funds. In addition, he noted the Council's new long term borrowing to take advantage of the low Public Works Loan Board, and asked if the Council would run into any difficulties if the central banks did not in future return to a more normal monetary policy.

Responding to the points raised, the Director of Finance explained that with current market conditions starting to shift, the borrowing position was under constant review and the Council would consider new borrowing at appropriate times.

Councillor Manro asked if the Council sought to take on new borrowing, once an existing debt matured. The Director of Finance explained that the Council did not prematurely repay loans, as the costs of the premium to repay debt usually outweighed any savings that could be achieved.

In light of Northamptonshire County Council issuing a Section 114 notice, Councillor Sabiers asked how the Council ensured its investments with other local authorities were secure and that the Council did not invest in 'financially shaky' authorities. The Director of Finance explained all investments were continually risk assessed and other local authorities were deemed relatively risk free counterparties. The Council relied on the credit rating provided by asset managers, rather than independently assessing individual councils. Overall, local authority deposits were deemed to offer high security and liquidity.

**Resolved: The Audit Committee noted the:**

- I. Treasury Management activities and performance against targets for the period to 31 December 2017.**
- II. Council's investment balance of £102.340 million as at 31 December 2017 of which £32.000 million was invested in other local authorities, as set out in Appendix 1 of the report.**
- III. Councils Treasury Management Strategy 2018-19, which had been approved by Full Council on 20 February 2018, as set out in Appendix 2 of the report.**
- IV. Council's counterparty investment list, as set out in confidential Appendix 3 of the report.**

## **7. KPMG External Audit Plan 2017 - 18**

Neil Thomas, (External Auditor KPMG) introduced the report which set out KPMG's External Audit Plan 2017/18 and the details regarding how the audit of the financial statements would be delivered.

Councillor Manro noted the Council's forecast overspend for 2017/18 of £12.3 million and asked what work external audit would be undertaking to ensure the Council was achieving value for money.

Mr Thomas explained that external audit would review the arrangements the authority had in place to ensure financial sustainability. This would include a review of how cost pressures, income projections and other sources of income had been considered in planning the 2018/19 budget and the longer term medium term financial strategy. External audit would also consider the processes in place to ensure that identified savings were realistic and achievable within the planned timeframes.

Councillor Manro sought assurance that Council's Pension Fund had undergone a robust valuation process. In response, Mr Thomas explained that as part of its work external audit would gain an understanding of the effectiveness of controls operated by the Pension Fund to manage data required for the calculation of the Council's net pension liability. This would

include consideration of the process and controls with respect to the assumptions used in the valuation.

External audit would obtain direct confirmations from Fund Managers, London Collective Investment Vehicle and custodians, and audit the reconciliations between them. A review of Fund Managers compliance reports would also be undertaken to confirm satisfactory controls were in place. It was explained that an error tolerance level was established, however if multiple errors were discovered the issue would be referred to the Director of Finance.

**Resolved: The Audit Committee noted KPMG's External Audit Plan for the 2017/18 closedown process.**

#### **8. KPMG Annual Grants and Returns Report 2016-17**

The Committee gave consideration to a report which presented the outcome of KPMG's audit work.

During 2016-17 KPMG had audited the following three grant claims:

- Housing Benefit subsidy claim.
- Pooling of Capital Receipts return.
- Teachers' pension return.

The outcome of the audit was set out in KPMG's Annual report on Grants and Returns 2016-17, which was attached to the report as Appendix 1. KPMG had issued an unqualified certificate for the Housing Benefits subsidy claim. Members noted that this was the first time for over five years the claim had been unqualified.

KPMG's work on the other grant assurance engagements also resulted in unqualified assurance reports being issued. The Pooling of Housing Capital Receipts had three adjustments which did not impact on the total housing capital receipts subject to pooling. Members noted that KPMG had raised no recommendations as a result of the audit.

Councillor Manro queried the number of cases sample tested. Mr Lucas explained that for each case, every change in circumstance was scrutinised, and this involved numerous changes per case.

The Director of Finance reported that extensive checks and balances had been established, and were continually reviewed and refined to ensure a robust monitoring system was in place.

On behalf of the Committee, Councillor Manro thanked officers for the report and asked that thanks be extended to the relevant officers for their hard work in achieving an unqualified certificate for the Housing Benefits subsidy claim.

**Resolved: The Audit Committee noted KPMG's Annual Grants and Returns Report 2016/17.**

**9. Draft Internal Audit Plan 2018-19**

The Head of Audit and Investigation presented the draft Internal Audit Plan 2018-19 for the Committee's consideration.

Councillor Manro asked how the Audit Plan and programme of work had been scheduled. The Head of Audit and Investigation explained that he could independently determine the schedule of work, although he often received input from the Director of Finance. The operation plan remained reasonably fluid to allow areas of emerging risk to be adopted during the year, where necessary.

Members were advised that updates to the Plan would be reported to the Council's Corporate Board and the Audit Committee throughout the year.

**Resolved: The Audit Committee reviewed and approved the draft Internal Audit Plan for the period 1 April 2018 to 31 March 2019.**

**10. Head of Internal Audit 2017-18 Quarter 3 Internal Audit and Investigation Update Report**

The Head of Audit and Investigations presented a report which provided a progress update on the work of Internal Audit and Investigation for Quarter 3, 1 October 2017 – 31 December 2017.

Members noted that Key Performance Indicators (KPI) had been established to measure the delivery of the audit service. The KPIs for delivery against the Audit Plan for each quarter were based on draft reports issued. At the end of Quarter 3, a total of 54% of reports had been issued in draft or as final. The Head of Audit and Investigations advised that whilst this was 11% behind target, there were a number of projects in progress and all of the remaining projects for the year had been scheduled in.

Members were informed that during the period there were three reports issued with a limited assurance opinion:

- No resources to public funds, direct payments
- Special Educational Needs
- Direct payments

The Head of Audit and Investigations reported that during the period, the first phase of Continuous Auditing and Monitoring over the Council's key financial systems for 2017/18 had been completed.

Councillor Manro noted that 14 council tenancies had been recovered following investigation and this provided a notional saving of £252,000.

On behalf of the Committee, Councillor Manro thanked officers for the report and asked that thanks be extended to the relevant housing officers for their hard work to recover the fraudulent council tenancies.

**Resolved: The Audit Committee noted the performance of the Internal Audit and Investigation Team and key issues arising during the period 1 October 2017 – 31 December 2017.**

#### 11. Risk Management Performance Report – Quarter 3 2017-18

The Head of Audit and Investigations provided the Committee with an update in respect of the review by Corporate Board of strategic risks facing the Council as at the end of Quarter 3 2017/18.

Members were informed that the current Strategic Risk Register (SRR) contained 17 risks. The total number of risks remained the same as Quarter 2, however during the quarter the following risks had been changed:

- A recruitment and retention risk had been added to the SRR, with a residual rating of medium.
- The complete or part failure of the ICT provision as a result of delays in implementing the post Secro contract transition had been removed, due to it being no longer current.

Members noted the updates provided in the SRR in relation to risks ISR0001 and ISR0008. These two strategic risks continued to have a high residual risk rating; however the risk scores remained unchanged since the last quarter.

The residual risk scores and medium risk ratings of 12 of the remaining 15 strategic risks were unchanged. In most cases, either actions were being taken by services to develop or enhance the control measures to mitigate the risks or the risks were being addressed as part of the Future Ealing programme.

The Head of Audit and Investigations reported that in three instances, although the ongoing controls being exercised by the services did not mitigate the residual risk to a below medium rating, no further cost effective enhancements to controls could be developed. In these circumstances, Corporate Board had agreed to tolerate the medium level risk rating.

Councillor Sabiers highlighted the importance of regular monitoring to ensure work continued to mitigate the risks. In addition, he queried if the Council had suitably considered the implications of Brexit and measures to mitigate risk. In response the Head of Audit and Investigations explained that work was ongoing to mitigate the risks associated with Brexit.

**Resolved: The Audit Committee reviewed the current Strategic Risk Register, as set out in Appendix A of the report, and was assured that it included all appropriate strategic risks facing the Council and that all**

**necessary and appropriate actions were being taken to safeguard the Council's business and reputation.**

**12. Date of Next Meeting**

Members expressed thanks to Councillor Murtagh for his work as Chair of the Committee.

The next meeting was provisionally scheduled for 30 May 2018 at 7.00 pm.

The meeting ended at 8.05 pm.

Councillor Tim Murtagh, Chair

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| <b>Report for:</b><br><b>INFORMATION</b> |          |
| <b>Item number:</b>                      | <b>6</b> |

|  |   |
|--|---|
| <b>Contains confidential or exempt information</b> | <b>No</b>   |
| <b>Subject of report</b>                           | Draft Annual Governance Statement 2017/18   |
| <b>Responsible officer</b>                         | Ross Brown, Director of Finance<br>Mike Pinder, Head of Audit & Investigations  |
| <b>Author</b>                                      | Mike Pinder, Head of Audit & Investigations – Ext 5792,<br><a href="mailto:pinderm@ealing.gov.uk">pinderm@ealing.gov.uk</a> |
| <b>Portfolio</b>                                   | Cllr Bassam Mahfouz - Finance & Leisure   |
| <b>For consideration by</b>                        | Audit Committee   |
| <b>Date to be considered</b>                       | 30 May 2017   |
| <b>Implementation Date if Not Called In</b>        | N/A   |
| <b>Affected Wards</b>                              | All   |
| <b>Keywords/Index</b>                              | Strategic Risk Management   |

| <b>Reason for report</b>   |
|--|
| This report sets out the methodology for producing the Annual Governance Statement (AGS) for 2017/18 and highlights governance issues. |

## **1. Recommendations**

- 1.1 It is recommended that Audit Committee:
- Note the Draft Annual Governance Statement for 2017/18.

## **2. Reason for recommendation and options considered**

- 2.1 Regulation 6 of the Accounts and Audit Regulations (2015) requires audited bodies to conduct a review at least once per year of the effectiveness of its system of internal control and publish a statement on internal control each year with the authority's financial statements. The AGS therefore fulfils this requirement and is attached as Appendix A to this report.

### **3. Key implications**

- 3.1 The Committee should note that the Chief Executive and Leader must sign the final 2017/18 Annual Governance Statement, which will be published as part of the statement of accounts.
- 3.2 One of the Committee's key roles is to oversee the Authority's control environment and its associated system of internal control and assurance processes. The Committee should satisfy itself that the Authority's assurance statement, in particular the AGS, properly reflects the risk environment and any actions needed to improve it. The Accounts and Audit Regulations (2015) and Public Sector Internal Audit Standards (2017) require the Council to maintain a robust, adequate and effective system of risk management in its delivery of core services. Operation of an effective risk management framework is an important element in order that the Council effectively discharges its corporate governance responsibilities.
- 3.3 The assurance process is provided through regular reporting to the audit committee of internal audit, external audit and risk management work undertaken during the year. The process to compile the annual governance statement also includes a self assessment return by all directors and executive directors for their services and review and input by a working group which have oversight of key governance processes across the council.

### **4. Financial**

- 4.1 The AGS will form part of the published Statement of Accounts for 2017/18.

### **5. Legal**

- 5.1 The Accounts and Audit Regulations 2015 refer to CIPFA guidance in relation to the 'proper practice' of internal audit. CIPFA guidance is therefore utilised in guiding the production of the AGS.

### **6. Value for money**

- 6.1 Compliance with best practice guidance helps ensure that the requirements of the Accounts and Audit Regulations 2015 will be met.

### **7. Risk management**

- 7.1 The preparation of the AGS links to the risk management framework within the authority. A key principle of good governance is 'taking informed decisions and effectively managing risk'. Strong governance helps to ensure congruence with key corporate objectives.

### **8. Community safety**

- 8.1 None

### **9. Links to the 6 Priorities for the Borough**

- 9.1 The effective identification, assessment and management of risk is an important foundation to the successful achievement of the strategic objectives in terms of

managing resources effectively. The issues outlined in this report have therefore a focus on all six priorities.

## **10. Equalities and community cohesion**

10.1 No equality impact assessment has been undertaken as the report is for information and does not affect the general duties of the Equality Act 2010.

## **11. Staffing/workforce and accommodation implications:**

11.1 No changes

## **12. Property and assets**

12.1 None

## **13. Any other implications:**

13.1 None

## **14. Consultation**

14.1 The preparation of the AGS is an important task. Preparation and challenge has been provided by a multi-disciplinary team. An AGS working group, consisting of the Director of Finance, Director of Legal & Democratic Services, Director of Human Resources & Occupational Development, Director of Strategy and Engagement and the Head of Audit and Investigation.

The AGS was prepared in draft using a wide variety of sources and discussed and challenged by the AGS working group.

## **15. Timetable for implementation**

15.1 The final AGS will accompany the financial statements for approval by the Council.

## **16. Appendices**

- Appendix A:

## **17. Background Information**

- Accounts and Audit Regulations (England) 2015
- Delivering Good Governance in Local Government: Framework and Guidance Note for English Authorities 2012.

## Consultation

| Name of consultee   | Post held                                 | Date sent to consultee | Date response received from consultee | Comments appear in paragraph: |
|---------------------|---|------------------------|---------------------------------------|-------------------------------|
| <b>Internal</b>     |   |                        |                                       |                               |
| Ian O'Donnell       | Executive Director of Corporate Resources | 11/5/2018              | 11/5/2018                             | Throughout                    |
| Ross Brown          | Director of Finance (Deputy s151 Officer) | 4/5/2018               | 4/5/2018                              | Throughout                    |
| Cllr Bassam Mahfouz | Portfolio holder – Finance & Leisure      |                        |                                       |                               |

## Report History

| Decision type:   | Urgency item? |
|--|---------------|
| For Information  | No            |
| Report no.: Report author and contact for queries:<br>Mike Pinder, Head of Audit and Investigation, ext. 5792. |               |

## Ealing Council: Annual Governance Statement 2017/18

### 1. Scope of Responsibility

- 1.1 Ealing Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government 2016 Edition. A copy of the code can be located on Ealing Council's Internet website at [https://www.ealing.gov.uk/download/downloads/id/2550/corporate\\_code\\_of\\_governance.doc](https://www.ealing.gov.uk/download/downloads/id/2550/corporate_code_of_governance.doc), or can be obtained from the Monitoring Officer.
- 1.4 This statement explains how the council has complied with the code and also meets the requirements of regulation 6(2) Accounts and Audit Regulations 2015, in relation to the approval of the Annual Governance Statement. It also highlights how the council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Finance officer in Local Government (2016).

### 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 2.2** The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of not fully achieving policies, aims and objectives and, therefore, provides a reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3** Ealing Council has interests in a number of entities ranging from sole ownership to representation on Community Interest Companies. Group companies are assessed as part of the risk based internal audit planning process to ensure adequate assurance can be provided to the Council regarding the control environment these bodies operate in.
- 2.4** Broadway Living is the largest proposition and governance arrangements to feed in to the Council are in place. During 2017/18 as part of the preparation for this an internal audit was undertaken during the year of the governance arrangements for Broadway Living and other Companies. Actions are being introduced and the Council Owned Companies Board chaired by the Chief Executive will be monitoring.
- 2.5** The governance oversight arrangements have been in place at Ealing Council for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

### **Creating and Implementing a Vision for the Local Area**

- 2.6** Ealing Council has put in place arrangements regarding the key systems and processes that comprise its governance framework. The administration's six priorities form the basis of the Council's Corporate Plan 2014 – 18 and provides focus for improvement. The Corporate Plan specifically seeks to make Ealing:
- Prosperous
  - Healthier
  - Safer
  - Cleaner
  - Fairer
  - Accessible
- 2.7** All Cabinet and Committee reports are required to be referenced to one or more of these six priorities. The Corporate Plan and any amendments or updates to it are considered and approved by Full Council.

**2.8** The council has moved to an outcome led approach to strategic planning and budget setting for 2018/19 to better align resources with priorities and meet the challenges the Council faces. This work is being delivered through a programme called Future Ealing which was agreed by Cabinet in March 2017 and will form the basis for the strategic planning framework used to engage the administration returned after the local elections in May 2018.

### **Roles and Responsibilities of Members and Officers**

**2.9** A Scheme of Delegation sets out the powers delegated to officers, at part 8 of the Constitution. The Financial Regulations and the Budget and Policy Framework Rules are also part of the Constitution, together with the Code of Corporate Governance and the Contract Procedure Rules. The Constitution is reviewed regularly, with all changes approved by the Council and published on the external website.

**2.10** The Code of Conduct for Councillors is contained within the Constitution. All councillors receive training on the requirements of the Code of Conduct and related issues. The council also has a Planning Code of Conduct and a Licensing Code of Conduct for members. Both of these codes are subject to ongoing revision and training is provided (and compulsory) for all members working in these areas.

**2.11** The Employee Code of Conduct is also contained within the Constitution and a copy of this is provided to all new employees when they start work for the council.

**2.12** The statutory Forward Plan is published monthly on the internet, and details all key decisions proposed to be made by the council during the relevant period. Any key decision which is not on the Forward Plan may not be taken within that period, unless the report author is able to demonstrate to the Monitoring Officer and relevant members that urgency procedure requirements are met. All urgent decisions taken are monitored by the Monitoring Officer and regular reports taken to Full Council.

**2.13** All Cabinet and Full Council reports which have significant financial or legal implications must be 'signed off' by a finance and a legal services officer, as well as by the responsible service director, before they are accepted onto a meeting agenda. Where draft reports fail to address key requirements, they are either amended or rejected and removed from the agenda as part of the approval process. Both reports and minutes of all decisions taken are published on the internet, including the reason for the decision.

**2.14** In some cases, like planning and licensing, specific committees have been appointed to consider these matters in more detail.

### **Standards of Conduct and Behaviour**

**2.15** Good governance means promoting appropriate values for the council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how the council achieve this:

**2.16** All members and chief officers are required to complete an annual statement relating to third party transactions and a register of members' interests, which is updated by members, is maintained and published on the Council's website.

**2.17** The Ealing Council Code of Conduct for Members (Constitution Part 5), revised in April 2014, defines the standards of conduct expected of elected representatives including a requirement for members to declare any interests at the start of every meeting, which are recorded in a public register.

**2.18** In addition, the following codes, protocols and systems are well established within the council. All are regularly reviewed and updated to account for developments in governance arrangements and changes in local government.

These include:

- A declaration of interest process for members and senior officers as described above;
- Rules and protocols are in place and are being further developed for all partnership working;
- Organisation-wide performance appraisal and employee development schemes are in operation;
- There is a corporate complaints procedure in place in line with Ombudsman good practice requirements;
- Whistle-blowing, anti-fraud and anti-corruption / bribery policies are in place and publicised in compliance with the national transparency agenda; senior officers' remuneration is published on the council website.

### **Decision Making, Scrutiny and Risk Management**

**2.19** Good governance means taking informed and transparent decisions that are effectively scrutinised and which manage risk. The following describes how the Council achieves this:

- 2.20** The Leader and Cabinet are responsible both individually and collectively for all 'executive' decisions. Operational matters requiring a decision are delegated to council officers as outlined in Part 3 of the Constitution – 'Responsibility for Functions'
- 2.21** All forthcoming 'Key' decisions by Cabinet are published in the Cabinet's Forward plan and republished every month on the Council's website.
- 2.22** Reports and minutes of meetings are also published on the council's website. This includes delegated decisions made by individual Cabinet Members and urgent decisions.
- 2.23** The council has an Audit Committee with clear terms of reference and an annual work programme for internal audit and risk management.
- 2.24** The Council maintains an Internal Audit and Risk Management service that operates in accordance with the published internal audit standards expected of a local authority in the United Kingdom. The Head of Internal Audit has direct access to the Chief Executive, the Section 151 Officer and the Chair of the Audit Committee.
- 2.25** An embedded Risk Management Framework is in place, with each Directorate maintaining a risk register. The risk management framework was approved by Corporate Board and the Audit Committee.
- 2.26** Robust business continuity management arrangements exist within the council, with all critical services having business continuity plans in place. The Minimum Standards for London Tranche 1 and 2 have been adopted as the guide to measure emergency planning and business continuity arrangements. These arrangements have been implemented and have been assessed via a peer review.
- 2.27** The council has a four year Medium Term Financial Strategy, which is reviewed and updated annually as part of the budget setting process to support the achievement of the council's corporate priorities. The budget and policy framework outlines the process and timetable to be followed each year when setting the council's budget. The financial management framework includes monthly budget monitoring reports to the Financial Strategy Group, departmental management teams, Corporate Board and regular reports to Cabinet.
- 2.28** The budgeting process requires departments to submit budget proposals that are aligned to the council's objectives, and which are based on a required savings target. Throughout the year, Cabinet Members receive regular updates on the

Finance Monitor which shows the financial position for each department and what is being done to address potential overspends. In addition, a Savings Tracker that monitors the delivery of agreed savings is also presented.

### **Developing the Capacity & Capability of Members and Officers**

- 2.29** Good governance means developing the capacity and capability of members and officers to be effective. The following describes how the council achieves this:
- 2.30** A full member training and development programme is in place and there is a comprehensive induction programme for all councillors within the first few weeks of their election to office. Training on the Council's Code of Conduct for Councillors is compulsory. The council has adopted specific codes of conduct for councillors involved in planning or licensing decision-making and these councillors receive additional training in these areas as a pre-condition of their participation.
- 2.31** There is a corporate learning programme which consists of a variety of learning interventions and is delivered using a blend of approaches i.e. workshops, elearn modules and books. The programme typically includes corporate activities such as Induction (key information and policies for Health & Safety, Data Protection, Equality & Diversity, Appraisal and Recruitment), personal development (Resilience, Presentation, Apprenticeship Qualifications) and management development and their responsibilities. We are currently running a number of management development interventions aimed at middle and senior managers to ensure they have the right skills and capabilities to enable the achievement of the council's future vision.

### **Engaging with Local people and Stakeholders**

- 2.32** The council's strategic planning priorities are directly aligned with those of the Local Strategic Partnership (LSP). The council is therefore better able to relate its own performance to the outcomes it seeks for the borough. This also facilitates greater alignment of priorities between the council and other key partners and service delivery agencies, such as NHS Ealing and the Police.
- 2.33** The council includes a definition of a partnership within its Constitution. Work has been undertaken to identify and assess key partners and ensure that robust protocols are in place for partnership working. In conjunction with performance, legal, and procurement a list of significant partners has been agreed. Evidence has been gathered to support good governance arrangements for these significant contractors. Assurance is gained through the Contracts Review Board and internal audit reviews.

**2.34** Commitments to deliver against our responsibilities in relation to equality and diversity feature strongly in the council's Corporate Plan. Regard to equality, diversity and human rights duties is embedded in the budget setting and business planning process, and templates for each require that officers and members take into consideration in an appropriate manner the equality, diversity and human rights impacts of proposed decisions. The council's approach is to embed equality and diversity within all of its work so that equality considerations are part of day-to-day management. Corporate Board takes regular updates on progress and developments in relation to implementation of the Equality Act, and the Cabinet report process and pro-forma have been amended to ensure that service directors sign off on service related equality assessments before Cabinet pre-agenda. All salient points from equality assessments carried out on Cabinet reports are included in the body of the report. Proposals that impact on staffing / workforce are signed off by HR Business Partners and service directors.

### **3. Review of Effectiveness**

**3.1** The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.

**3.2** The council's review of the effectiveness of its system of internal control is informed by:

- Annual Assurance Opinion of the Head of Internal Audit.
- Performance against targets;
- Annual Assurance Statement; and
- A review of the previous year's Annual Governance Statement.

**3.3** The review of effectiveness of the council's governance framework is informed by the work of the Executive Directors who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Investigations' Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates. The Annual Governance Statement Working Group (AGSWG) considers these sources of information and informs the creation of the Annual Governance Statement.

**3.4** The AGSWG consists of senior officers from multi-disciplines with responsibility for the preparation of the AGS and relevant supporting evidence. The AGSWG meets on targeted engagement cycle during the year to ensure compliance with the corporate timetable. The AGSWG also undertook a review of the 2017/18 AGS, in particular the disposition of the significant governance issues identified. The key evidence to support the review of effectiveness is outlined below:

- 3.5 Planning** – The Strategy and Engagement Directorate monitors delivery of the Corporate Plan, working closely with directorates to spread best practice, track and strengthen performance.
- 3.6 Performance Management** – The Strategy and Engagement Directorate works with all directorates to monitor performance against the agreed corporate performance indicator suite. It also helps drive continuous improvement in the way in which functions are exercised, by having regard to a combination of economy, efficiency and effectiveness. In addition, a number of governance mechanisms are in place to support performance management across the council, including: monitoring the delivery of the corporate plan; Savings Tracker; Strategic Projects Board; Board Performance Monitor; and, the Budget Steering Group.
- 3.7** Council projects are run in line with a project control framework that defines the mandated control processes needed. Within this framework, individual departments develop their own detailed processes that reflect their different needs, risk profile and working practices. The key governance control is that each project in the council reports into an appropriate project board of managerial group. Large projects are governed by the Strategic Projects Board, but most large initiatives usually report to departmental level boards at Executive Director level. Smaller projects report to project boards chaired in line with delegated authority levels.
- 3.8** The council continues to implement an extensive efficiency / value for money programme to improve services and identify significant on-going savings in both the current and future years. This is achieved through financial management and budget proposal scrutiny, including on-going line-by-line analysis of individual budgets.
- 3.9** The Performance Monitor reviewed monthly at Corporate Board sets out analysis of performance against key targets and Corporate Plan commitments. A copy is also distributed to Cabinet Members. Directorate, divisional and service unit business plans contain a variety of performance indicators and targets. A regular review is also completed to ensure that systems, processes and controls are in place to ensure the efficient and effective delivery of high-quality services and to ensure that performance information is accurate and reliable. A quarterly stock take report incorporating risk management, performance and key areas for assurance is reported to Corporate Board.
- 3.10** Members play a regular role in performance management, providing challenge to officers. Cabinet receives a report on performance each quarter. Cabinet portfolio holders have weekly meetings with Executive Directors and review finance and performance indicators each month.

- 3.11 The Cabinet** – The council operates a Leader and Cabinet model of local government. Cabinet has nine members; each member has a specific area of responsibility known as a ‘portfolio’ and is accountable for the council’s decisions. Cabinet carries out all the local authority’s functions which are not the responsibility of any other part of the local authority.
- 3.12 Shadow Cabinet** – There is a Shadow Cabinet comprising members of the largest opposition party. The Shadow Cabinet has access to all relevant documents and officer advice and its proceedings shall take place in accordance with the Access to Information Procedure Rules in part 4 of the Council’s Constitution.
- 3.13 General Purposes Committee** – To take an overview of regulatory functions such as development control, licensing, parliamentary proceedings, election, registration and inspection of homes and member training. To exercise any Cabinet function referred to it.
- 3.14 Overview and Scrutiny Committee** – There is a respected and active scrutiny function managed by the Overview and Scrutiny Committee (OSC) to discharge the functions conferred by section 21 of the Local Government Act 2000. In addition to the Health and Adult Social Services Standing Scrutiny, the council has four scrutiny panels that select new topics of focus every year in response to circumstances. Topics for 2017/18 were: Violence against women and girls, Licensing Policy, Future Ealing, and Transport Scrutiny committees oversee and scrutinise the decisions made by Cabinet and Cabinet members under delegated powers.
- 3.15 The Standards Committee** – The Standards Committee has six members, including an independent (non-voting) chair. In line with regulatory requirements, the committee is supported by two independent people. The committee reviews and oversees member development and the council’s Whistle-blowing Policy. The committee also deals with matters of member conduct, including complaints. The committee submits an annual report on its work to Full Council. The council’s standards arrangements were revised in 2012 to take account of changes to be introduced as a result of the Localism Act 2011. Eight complaints were made concerning Councillors in 2017-18, four were by the same complainant. 2 complaints referred for investigation relate to the same incident. All have been reviewed by the Director of Legal and Democratic Services. The remaining issues were not required to be referred for investigation.
- 3.16 The Audit Committee** – The council has a well-established Audit Committee that provides independent, effective assurance on the adequacy of the council’s governance environment. All major political parties are represented on the committee.

**3.17** The Audit Committee met regularly during 2017/18, considering reports, including the Annual Internal Audit Report, from the Head of Audit & Investigation and the External Auditor.

**3.18** The remit of the Audit Committee is to:

- Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- Provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority exposure to risk and weakens the control environment; and
- Oversee the financial reporting process.

**3.19** The Audit Committee also reviews Internal Audit performance against targets and quality assurance results. Since its inauguration, the committee has worked in tandem with the Ealing Council Audit Board (the "Audit Board"). The results are reported formally to the Committee and to Full Council.

**3.20** The Audit Board has been in place since 2005 and comprises of senior officers. The Audit Board meets quarterly and seeks to strengthen the assurance framework of the Council. Internal Audit and Investigation provides progress reports on internal control and counter fraud to the Audit Board. As and when required, officers are held to account by the Audit Board through the use of challenge sessions to focus on any areas of weakness or non-compliance. Audit Board also reviews the effectiveness of the risk management framework and the profile of the council's strategic risks.

**3.21 Statutory Officers** – The Constitution sets out how the council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the council to choose. The Constitution comprises eight parts which sets out the basic rules for governing the council's business, as well as detailed procedures and codes of practice.

**3.22** The Constitution is regularly reviewed by the Monitoring Officer and any change proposals are considered by the Constitutional Review Group (an informal group of senior councillors) and advertised on the web prior to adoption by full council on the presentation of a detailed report. The Constitution sets out the responsibilities of both members and officers. In particular the council has identified the following six statutory posts.

- Head of Paid Service – Chief Executive

- Chief Financial Officer (Section 151) – Executive Director, Corporate Resources
- Monitoring Officer – Director of Legal and Democratic Services
- Director of Children’s Services – Executive Director, Children, Adults and Public Health.
- Director of Adult Social Services – Executive Director, Children, Adults and Public Health.
- Director of Public Health

The council’s chief executive, s.151 officer, and monitoring officer meet every six weeks for a “statutory officers meeting” where issues of particular governance concern are raised and approaches agreed

**3.23 Management** – Each Executive Director has provided a self-assurance statement in respect of 2017/18, supported by assurances received from their direct reports, that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of the Council which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of the Council’s key priorities; and
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks.

**3.24** All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority’s policies are implemented in practice. The Monitoring Officer and the Legal Services Team monitor compliance with, and awareness of, key laws and regulations. Executive Directors, directors and service heads are responsible for monitoring implementation of the council’s policies.

**3.25** One of the key elements in obtaining the required internal controls assurance for the Annual Governance Statement is the completion of the Annual Assurance Statement by senior officers. The Statement noted that for the year ended 31 March 2018, senior officers were aware of their responsibilities and had complied with the council’s policies and procedures.

**3.26** Executive Directors were asked to compile their statement after reviewing the statements from their direct reports. Direct reports were asked to compile their statement after taking assurance from their senior management teams.

**3.27 Internal Audit** – The council takes assurance about the effectiveness of the governance environment from the work of Internal Audit which provides independent and objective assurance across the whole range of the Council’s activities. It is the duty of the Head of Audit and Investigations to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

**3.28** The Head of Audit & Investigations provided his annual report to the Audit Committee in May 2018. This report outlined the key findings of the audit work undertaken during 2017-18, including areas of significant weakness in the internal control environment.

**3.29** An assurance mechanism is used to reflect the effectiveness of the council’s internal control environment. The table below details the four levels of assurance provided:

| Level       | Definition   |
|-------------|--|
| Substantial | There is a sound system of internal control designed to achieve the client’s objectives. The control processes tested are being consistently applied.  |
| Reasonable  | While there is a basically sound system of internal control, there are weaknesses, which put some of the client’s objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client’s objectives at risk. |
| Limited     | Weaknesses in the system of internal controls are such as to put the client’s objectives at risk. The level of non-compliance puts the client’s objectives at risk.  |
| None        | Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.  |

**3.30** It is the opinion of the Head of Audit and Investigations that, taking into account all available evidence, there is reasonable assurance over the adequacy and effectiveness of the council’s overall internal control environment during the financial year 2017-18.

- 3.31 External Audit** – KPMG LLP is currently the council’s appointed external auditor. As well as an examination of the council’s financial statements, the work of the council’s external auditor includes an assessment of the degree to which the council delivers value for money in its use of resources.
- 3.32 Risk Management** – The council managed its risks during 2017-18 in accordance with the approved Risk Management Policy. Corporate Board formally considers risks, with quarterly reports also being presented to the Audit Committee.
- 3.33** The indicative Internal Audit Plan for 2017-18, presented to the Audit Committee in February 2017, is chiefly based upon the key risks faced by the council as identified in the corporate and directorate risk registers, such that Internal Audit will provide assurance on the effectiveness of the internal control framework during 2017-18.
- 3.34 Developing Capacity** – The council has operated procedures during the period covered by this statement to ensure the training needs of staff are assessed against core competencies and any key training needs are met. Additionally the council has provided and makes available ongoing training opportunities to councillors to enable them to effectively fulfil their duties as councillors of the council.
- 3.35 Engagement** – Regular consultation is also undertaken with residents to ensure that the authority makes decisions based on resident requirements and feedback regarding general provision and quality of service.

#### 4. Significant Governance Issues 2017/18

4.1 Based on the Council's established risk management approach, the issue detailed below have been assessed as being significant for the purpose of the 2017/18 Annual Governance Statement. The Council propose over the coming year to take steps to address the above matter to further enhance our governance arrangements. Per above are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and progress will be monitored throughout the year.

| <b>Table 1<br/>2017/18 Governance Issues</b>  |  |  |                                   |
|---|--|--|-----------------------------------|
| <b>Issue</b>  | <b>Actions</b>   | <b>Officer Responsible</b>   | <b>Timescale</b>                  |
| <p><b>1. Financial Pressures</b></p> <p>An overall net financial pressure of £36m for the Council due to external demand driven pressures and a failure to achieve all scheduled MTFS savings. This was largely resultant from Adult Social Care and Children's Services. due to non -delivery of savings plans, increased demand and increasing costs.</p> | <p>Budget growth has been built in to 2018/19 MTFS that will enable these services to deliver within budget.</p> <p>Change programmes have been introduced in those areas where demand pressure is most significant such as Adults Service through the (Better Lives programme) and in Children's through the (Brighter Futures programme.</p> | <p>Executive Director of Corporate Resources.<br/>Executive Director of Children and Adults.</p> | <p>Ongoing through 2018/2019.</p> |
| <p><b>2. Council Owned Companies</b></p> <p>Further establishing governance arrangements in respect of council-owned companies – community interest companies.</p>  | <p>An internal audit of the area was commissioned during 2017/18. This raised areas to help develop further good practice in the oversight of Council Owned</p>  | <p>Chief Executive (Via Council Owned Companies Governance Board)</p>                            | <p>Ongoing</p>                    |

| <b>Table 1<br/>2017/18 Governance Issues</b>   |   |  |                  |
|--|---|--|------------------|
| <b>Issue</b>   | <b>Actions</b>  | <b>Officer Responsible</b>                 | <b>Timescale</b> |
|  | <p>Companies.</p> <p>An action plan has been set out for the Council Owned Companies Governance Board to agree and monitor implementations.</p>   |  |                  |
| <p><b>3. Housing Health &amp; Safety Programme</b></p> <p>Enhancing governance and oversight arrangements to monitor and ensure that all health and safety inspections are undertaken and action programmes implemented.</p> | <p>New management lines have been designed.</p> <p>Compliance roles to be developed and progressed to compliment a new safety management approach.</p> <p>A planned internal audit to confirm the process in place.</p> | <p>Head of Corporate Health and Safety</p> | <p>2018/19</p>   |

## Conclusion and Evaluation

As Leader and Chief Executive, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the London Borough of Ealing to ensure effective internal control is maintained. We are also satisfied that there are appropriate plans in place to address the weaknesses and ensure continuous improvement in the system of internal control.

Signed.....

Chief Executive – Ealing Council  
Paul Najsarek

Signed.....

Leader of the Council  
Cllr. Julian Bell



|  |
|--|
| <b>Report for:</b><br><b>INFORMATION</b> |
|  |
| <b>Item Number:</b> <b>7</b>             |

|  |   |
|--|---|
| <b>Contains Confidential or Exempt Information</b> | No  |
| <b>Title</b>                                       | Head of Internal Audit 2017/8 Quarter 4 Internal Audit & Investigation Update Report                            |
| <b>Responsible Officer</b>                         | Ross Brown, Director of Finance<br>Mike Pinder, Head of Audit & Investigations                                  |
| <b>Author</b>                                      | Mike Pinder, Head of Audit & Investigations<br><a href="mailto:PinderM@ealing.gov.uk">PinderM@ealing.gov.uk</a> |
| <b>Portfolio</b>                                   | Cllr Bassam Mahfouz - Finance & Leisure   |
| <b>For Consideration By</b>                        | Audit Committee   |
| <b>Date to be Considered</b>                       | 30 May 2018   |
| <b>Implementation Date if Not Called In</b>        | N/A   |
| <b>Affected Wards</b>                              | All   |
| <b>Keywords/Index</b>                              | Internal audit and investigations   |

**Purpose of Report:**  
The attached report provides Audit Committee with the Head of Internal Audit Report and Opinion on the Internal Audit work completed in 2017/18 and incorporates an update on the work of Internal Audit & Investigations for Quarter 4, 1 January 2018 – 31 March 2018.

**1. Recommendation**

1.1 It is recommended that the Audit Committee:

- Note the performance of the Internal Audit & Investigation team and key issues arising during the period 1 January 2018 – 31 March 2018.
- Note the Head of Internal Audit Annual Opinion.
- Note that there are no changes to the Internal Audit Charter.

## **2. Reason for Decision and Options Considered**

2.1 The Public Sector Internal Audit Standards require that the Head of Internal Audit (for the Council it is the Head of Audit and Investigations) presents an annual report to an Authority's Audit Committee. This is reflected in the terms of reference of the Committee. The report provides Members of the Audit Committee with:

- The Head of Internal Audit Opinion for 2017/18;
- An overview of the Council's risk exposure and its overall system of internal control;
- The work undertaken by Internal Audit in 2017/18;
- Review of the outcomes of key internal audit reports; and
- An overview of the performance of Internal Audit.

2.2 This is a programmed, periodic report outlining the Head of Audit's opinion and the progress of internal audit and investigations functions, therefore, no decision is required on those sections.

2.3 The Internal Audit Charter is a document setting how Internal Audit work with the organisation, as such this should be approved by the Audit Committee. A revised Internal Audit Charter was presented and agreed by Audit Committee in May 2017, this document has been reviewed and no changes have been considered necessary.

## **3. Key Implications**

3.1 Internal audit is an assurance function that provides an independent and objective opinion to Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving corporate objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. While assurance will also be sought from third parties, the assurance gained from the programme of work set out in the 2017/18 Plan will form the main input for the development of the 2017/18 opinion to Council.

## **4. Head of Internal Audit Opinion**

4.1 This report gives a summary of the work carried out by Internal Audit in the financial year 2017/18 and the results of that work as reported in progress reports to Committee throughout the year and as set out in section 5 covering the period 1 January to 31 March 2018. From the work undertaken during the year, my overall opinion on the Council's system of internal control, governance and risk management is that:

4.2 Reasonable assurance can be given that there is a sound system of internal control, designed to meet the organisation's objectives and that controls are applied consistently. Reasonable assurance is a positive level of assurance and means that there is a sound system of internal control, although there are

weaknesses, which put some of the client's objectives at risk. Full details of assurance levels are set out in the table at 5.3.

- 4.3 Controls relating to key financial systems were overall concluded to be at a reasonable assurance level. Borne out by the Controls Assurance Monitoring work, which is the internal audit work undertaken on the core financial systems including Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll and General Ledger, where there has been a positive direction of travel during the year. There were no high risk recommendations made.
- 4.4 Internal Audit work on other systems (excluding schools) has also concluded that an overall reasonable level of assurance. This is based on a consideration of the findings of all of the internal audit projects and relative materiality completed and reported in table 5.4. During the period there were six limited assurance reports finalised, being: Review of Related Parties; No Recourse to Public Funds; Direct Payments; Electrical Safety; and Special Educational Needs Transport. These reports were reported to the committee during 2017/18 (including section 5 below).
- 4.5 Follow-ups on progress on implementation has identified that overall there has been satisfactory progress. Further work is required to improve the number fully implemented by their due date.
- 4.6 The basis for the opinion considers not only the assurance level of each report for the year, but the relative materiality of the system assessed during the year. In 2016/17 the overall opinion was also reasonable.
- 4.7 Details of the assurance levels are set out in the table at 5.3 below.

## 5. Internal Audit Performance as at 31 March 2018

- 5.1 This report provides a progress update on the 2017/18 internal audit plan and status of projects as at to 31 March 2018.
- 5.2 The 2017/18 Plan was approved by the Audit Committee in March 2017. The plan presented was indicative and can be subject to revision during the year to take account of changing priorities and emerging risks, which is aligned with good internal audit practice. The Audit Board monitors progress against the plan and the Executive Director Corporate Resources (Section 151 Officer) and the Director of Finance (Deputy Section 151 Officer) meets with the Head of Audit & Investigations to discuss progress and emerging findings.
- 5.3 The table below explains the assurance levels applied to the finalised reports.

| Assurance level | Definition  |
|-----------------|---|
| Substantial     | There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied. |

| <b>Assurance level</b> | <b>Definition</b>  |
|------------------------|--|
| Reasonable             | While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk. |
| Limited                | Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk   |
| No                     | Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.  |

5.4 The position against the 2017/18 internal plan is set out in the table below.

|   | <b>Audit Title</b>            | <b>Scope</b>   | <b>Audit Status</b>   | <b>Final Report to Audit Committee</b> |
|---|-------------------------------|--|---|--|
| 1 | Workforce planning            | Specialist review focusing on the resourcing implications of significant organisational change. Key risks to be addressed: <ul style="list-style-type: none"> <li>- Inappropriate succession planning arrangements;</li> <li>- Operational capacity not matching business need; and</li> <li>- Retention and recruitment to specialist roles.</li> </ul> | This audit was deferred to 2018/19 to optimise the value in linking to the work being undertaken by the Council in this area. |  |
| 2 | Review of Related Parties     | Reviews of a selection of arms-length organisations based on a risk assessment exercise, to provide assurance on governance, financial management and performance monitoring   | Finalised (Limited Assurance).  | Q4                                     |
| 3 | Temporary workers/contractors | Processing, recording and monitoring of contractors; would include implementation of IR35  | Finalised (Reasonable assurance).   | Q4                                     |

|      | <b>Audit Title</b>   | <b>Scope</b>  | <b>Audit Status</b>   | <b>Final Report to Audit Committee</b> |
|------|--|---|---|--|
| 4    | Continuous auditing and monitoring Phase 1 (Key financial systems) | Audit of key controls for six key systems: Accounts Payable, Accounts Receivable, NNDR, Council tax, Payroll and General Ledger       | Finalised (Reasonable assurance), see table at 4.6 for additional information).   | Q3                                     |
| 5    | Continuous auditing and monitoring Phase 2 (Key financial systems) |   | Finalised (Reasonable assurance, see table 4.6 for additional information).   | Q4                                     |
| 6    | Data Protection  | Readiness for 2018 legislation. Will be conducted across shared service   | Draft report issued   |  |
| 7    | No recourse to public funds  | Review of assessment and referral process, and budget monitoring processes.   | Finalised (Limited Assurance).  | Q3                                     |
| 8-12 | Schools themed audits – Payroll and safe recruitment               | Review of payroll and safe recruitment arrangements in 5 schools maintained by the Council  | The schools programme has been reviewed and the themed audits replaced with audits at individual schools.<br><br>Of the 5 schools:<br><br>1) Tudor Primary – final report issued (reasonable assurance) Q4<br>2) Dormers Wells Infants & Nursery – final report issued (nil assurance) Q4<br>3) Holy Family Catholic Primary – Draft issued<br>4) John Perryn Primary – Draft issued<br>5) Drayton Green Primary – Draft issued |  |
|      | Schools themed audits – Procurement                                | Review of procurement arrangements in 5 schools maintained by the Council   |   |  |
|      | Schools themed audits – Financial governance                       | Review of financial governance arrangements in 5 schools maintained by the Council  |   |  |
| 13   | Safeguarding Adults Deprivation of liberty                         | Controls and processes relating to Deprivation of Liberty safeguards and the Council's statutory responsibility as a supervisory body | Draft report issued   |  |
| 14   | Direct payments  | Review of both children and adults  | Finalised (Limited Assurance).  | Q3                                     |

|    | <b>Audit Title</b>                | <b>Scope</b>  | <b>Audit Status</b>  | <b>Final Report to Audit Committee</b> |
|----|-----------------------------------|---|--|--|
|    |                                   | Direct Payments. To consider application, assessments and monitoring processes..  |  |  |
| 15 | SEN Transport                     | Controls in place for managing and allocating resources and demand (Including transport)  | Finalised (Limited Assurance).   | Q3                                     |
| 16 | Highways network assets (phase 2) | Extended follow up to the 16/17 highways network assets audit. To focus on systems for maintaining the records required to evidence any changes for valuation of highways network assets (the 16/17 audit focused on the systems developed by the Council to revalue Highways Network Assets in advance of the CIPFA change to ensure that the balance is complete, accurate and valid. Phase 2 to focus on 2016/17 work/updates and systems and controls to be used going forward. | Removed from the plan. CIPFA announced in March 2017 that they are no longer planning to introduce the Highways Network Assets code. | N/A                                    |
| 17 | Viridor Recycling contract        | Review of contract for recycling services.  | Finalised (Reasonable Assurance)   | Q1                                     |
| 18 | Licensing                         | To focus on the new property licensing scheme (Homes of Multiple Occupancy)   | Finalised (Limited Assurance).   | Q4                                     |
| 19 | Cyclical planned maintenance      | Review of planned maintenance programme - Housing stock only.   | Finalised (Substantial Assurance)  | Q3                                     |
| 20 | Electrical safety                 | Compliance with legislation review - Housing stock only.  | Finalised (Limited Assurance)  | Q4                                     |
| 21 | Town Hall redevelopment           | Governance review of the Town Hall redevelopment project.   | This audit has been deferred until 2018/19 to reflect revisions to the Town Hall redevelopment plan.                                 |  |
| 22 | IT Risk diagnostic                | Use of IT Risk Diagnostic to identify   | Finalised  | Q4                                     |

|    | <b>Audit Title</b>          | <b>Scope</b>   | <b>Audit Status</b>               | <b>Final Report to Audit Committee</b> |
|----|-----------------------------|--|-----------------------------------|--|
|    |                             | risk areas   |                                   |  |
| 23 | IT Cyber                    | Looking at controls to help mitigate and respond to cyber attacks.                                     | Draft report issued               |  |
| 24 | IT Application – Frameworki | Looking at application controls, e.g. access; authorisations; reporting and processing for Frameworki. | Draft Report Issued               |  |
| 25 | IT Application - Jadu       | Looking at application controls (as above) for Jadu.   | Draft Report Issued               |  |
| 26 | Treasury Management         | Review of treasury management processes for the investment portfolio and pension fund.                 | Finalised (Reasonable Assurance). | Q3                                     |
| 27 | Trading Standards           | To consider the processes in operation around visits and inspections undertaken by the service.        | Finalised (Reasonable Assurance). | Q4                                     |
| 28 | Homecare                    | Review of processes to procure, commission and monitor providers.                                      | Draft report issued               |  |

5.5 During the period there were six final report issued. Three of the final reports had a Limited Assurance opinion, a summary of these three limited assurance reports is provided:

- Licensing (Homes of Multiple Occupation), this included high risks in income targets and confirmation of compliance with relevant standards and legislation.
- Review of Related Parties, this included three high risk recommendations relating to governance arrangements, business planning and a gateway review process.
- Electrical Safety, this included two high risk recommendations relating to performing of checks within the recommended 5 yearly intervals and provided an audit trails to evidence these.

5.6 The programme of themed audits for schools has been replaced with individual school audits. As individual entities, these do not form part of the HIA opinion.

A programme of five audits has been set up. All five (100%) have been completed to at least draft report and are included in the table above

5.7 During the period officers have completed the second phase of Continuous Auditing and Monitoring over the Council's key financial systems for 2017/18. The table below shows the systems covered, an overall risk rating for period 1 and 2. The trend shows difference between periods and as shown an indication of overall improvement.

| Scope area   | Risk classification# (period 2) | Risk classification# (period 1) | Trend |
|--|---------------------------------|---------------------------------|-------|
| Payroll  | Low                             | Medium                          | ↑     |
| Accounts Payable   | Low                             | Medium                          | ↑     |
| Accounts Receivable  | Low                             | Low                             | ↔     |
| Council Tax  | Medium                          | Medium                          | ↔     |
| National Non Domestic Rates  | Medium                          | Medium                          | ↔     |
| General ledger (bank reconciliations and suspense account reconciliations) | Low                             | Medium                          | ↑     |

# The risk classifications are:

|        |   |
|--------|---|
| High   | <p>The internal audit controls work identified one or more high risk recommendations.</p> <p>A high risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul> |
| Medium | <p>The internal audit controls work identified one or more medium level recommendations.</p> <p>A medium risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the</li> </ul>  |

|     |  |
|-----|--|
|     | organisation.  |
| Low | <p>The internal audit work identified only minor controls issues.</p> <p>A low risk finding is categorised as one that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation’s operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul> |

5.8 The table below provides a summary of progress in terms of the number of reports at draft or final stage and those in progress:

| <b>Audit Status</b> | <b>Number of reviews</b> | <b>Percentage Completion</b> |
|---------------------|--------------------------|------------------------------|
| Finalised           | 16                       | 64%                          |
| Draft report issued | 9                        | 36%                          |
| <b>Total</b>        | <b>25</b>                | <b>100</b>                   |
|                     |                          |                              |
| Original total      | 21                       |                              |
| Removed/on hold     | 3                        |                              |
| Additions           | 7                        |                              |
| Total               | 25                       |                              |

5.9 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how performance is measured to ensure that all audits on the plan for each Council are delivered by the end of the financial year. The shared service KPIs for delivery against the audit plan for each quarter are (based on draft reports issued):

- Quarter 1 – 15% of 17/18 audits delivered (draft report issued)
- Quarter 2 – 35% of 17/18 audits delivered (draft report issued)
- Quarter 3 – 65% of 17/18 audits delivered (draft report issued)
- Quarter 4 – 100% of 17/18 audits delivered (draft report issued)

5.10 Performance to complete 100% of draft reports in 17/18 has been met once the deferrals have been taken into account.

**6. Follow Up of Recommendations**

6.1 Follow-up of high recommendations has been completed. High risk recommendations are those which are considered to have

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

The results of the follow-up work are summarised as:

Main Council audits

|                           |    |
|---------------------------|----|
| Number of Recommendations | 14 |
| Fully implemented         | 3  |
| Partially implemented     | 11 |

6.2 Satisfactory progress has been made on the 11 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

Schools Audit

|                           |   |
|---------------------------|---|
| Number of Recommendations | 7 |
| Implemented               | 5 |
| Partially implemented     | 2 |

6.3 Satisfactory progress has been made on the 2 recommendations. These will be monitored through to completion. If significant delays occur this will be reported to committee.

**7. Internal Audit Charter**

7.1 An Internal Audit Charter has been produced for the Council and agreed by the Audit Committee in May 2017 a copy is available from the Committee webpage or link: [Internal Audit Charter](#). The charter sets out where Internal Audit sits within the Council and helps us to comply with the recent update to the Public Sector Internal Audit Standards (March 2017). No changes are considered necessary to the charter at this time.

**8. Counter Fraud and Investigations Performance & Developments**

8.1 The Shared Service is responsible for the investigation of all types of suspected fraud within the Council, including but not limited to:

- Corporate fraud matters in relation to offences committed by employees;

- Procurement fraud by employees, contractors or other third parties;
- Fraud within schools;
- Housing related fraud; and
- Council Tax Reduction fraud.

8.2 During the year, highlights include the completion of seven proactive projects. These have helped increase fraud awareness and the results such as recovery of tenancies are also starting to be felt with two notice to quits issued on properties identified from these projects. Enhanced vetting has continued to protect the Council with 29 people failing, withdrawing or ending assignments.

8.3 Our work on reactive investigations has resulted in notional and actual savings of £801,156 and a total of 35 sanctions during the year. Significantly, this includes the recovery of 18 properties, which can now be allocated to those with a genuine need.

## 9. Pro-active Anti-Fraud Work

9.1 The table below details the proactive drives that have taken place throughout 2017/18.

|                             |   |
|-----------------------------|---|
| 1. Housing tenancy days x 2 | 5. Phishing exercise                                  |
| 2. Fraud eLearn relaunch    | 6. Grants team fraud awareness training               |
| 3. Fraud Roadshow           | 7. National Fraud Initiative                          |
| 4. ID Scanner               | 8. Support to the London Counter Fraud Hub (ongoing). |

9.2 The following provides an update on the project work undertaken since the last Committee report:

9.3 The team conducted a second tenancy drive in March. As a result of the housing fraud drive 108 properties were visited:

- 69 tenancies were verified;
- one strong lead for non-residency is being investigated
- one case was referred to the Department for Work and Pensions for benefit related matters.
- 36 revisits are being performed to any property that we were unable to verify (e.g. no one in).

9.4 Work continues to follow-up/investigations cases from the first tenancy drive and two notice to quits have been issued.

9.5 The Council Tax Single Person Discount 2017/18 National Fraud Initiative exercise is currently underway. This data match is designed to identify fraud

and error in relation to single person discount. The data for this year's exercise has been uploaded and the matches are now being reviewed. A summary of outcomes will be reported to future committees.

9.6 The council has successfully implemented a new ID Scanner. The system will fully authenticate identity documents and will assist in the fight against fraud by preventing fraudulent applications entering the system.

9.7 The team has continued to provide support to the London Counter Fraud Hub.

## 10. Enhanced Vetting (EV)

10.1 Ealing Council has a risk assessed process of Enhanced Vetting for new recruits. This work is undertaken by the Investigation's team into both permanent and temporary posts and involves stringent checks to verify the validity of a candidate and their employment application.

10.2 Reasons for failure to progress into a post have included Benefit and Council Tax fraud, Housing fraud, false employment history, false references and false qualifications.

10.3 The outcomes of the vetting work for between 1 April 2017 and 31 March 2018 is that 22 cases either failed or were prevented, representing nearly 4% of all cases reviewed. A further 8 cases resulted in referrals to other organisations. The full details of the work of the vetting service are set out in the table below.

Table summarising work on Enhanced Vetting, 1 April 2017 and 31 March 2018.

| Case status                     | Cross Council |            |            |
|---------------------------------|---------------|------------|------------|
|                                 | Temp          | Perm       | Total      |
| Pass                            | 149           | 380        | <b>529</b> |
| Fail                            | 3             | 6          | <b>9</b>   |
| Withdrawn                       | 1             | 12         | <b>13</b>  |
| Assignment Ended*               | 7             | -          | <b>7</b>   |
| <b>Total</b>                    | <b>160</b>    | <b>398</b> | <b>558</b> |
| <b>Additional Outcomes</b>      |               |            |            |
| 3 <sup>rd</sup> Party Referral# | 1             | 7          | <b>8</b>   |

\*Assignment ended specifically means that whilst enhanced vetting had commenced, the individual assignment had ended before the enhanced vetting activity could be completed. It should be noted that there will always be an element of this particularly in services where there is a high level of short-term placements e.g. Care Workers.

#Third Party Fraud Referral – represents a suspected fraud that has been identified as result of enquiries, for example, a benefit fraud by another member of a candidate’s household. These referrals are not necessarily attributable directly to the candidate, but have instigated a separate fraud investigation, for example, the actions of a partner or member of immediate family of the person being vetted.

### Vetting Case Studies

10.4 An examples of a case which failed the enhanced vetting work:

- Candidate A provided an excellent reference covering 10 years service with one company. Verification of the reference revealed that it had been written by his partner. The reference was significantly inaccurate with regards to the candidates work history and responsibilities.

## 11. Investigation team performance to 31 March 2018

11.1 The table below details the performance of the team against the targets that have previously been set:

Table showing A&I Performance Indicators, 2017/18 to year-end

|   | 2016/17<br>outturn | 2017/18<br>target | <b>2017/18<br/>year-end</b> |
|---|--------------------|-------------------|-----------------------------|
| Number of new cases started   | 582                | 550               | <b>469</b>                  |
| Number of cases passed for investigation  | 239                | 375               | <b>191</b>                  |
| Average time from receipt of referral to ‘Accepted’ and forwarded for investigation   | 13 days            | 16 days           | <b>18 days</b>              |
| Completed pro-active operations   | New target         | 6                 | <b>7</b>                    |
| Number of completed investigations  | 247                | 250               | <b>259</b>                  |
| Number of completed investigations (not referred on to another organisation or NFA)   | New target         | 162               | <b>153</b>                  |
| Number of cases of proven (balance of probabilities) economic crime   | 48                 | 68                | <b>54</b>                   |
| Number of sanctions applied (includes: Prosecution; Police caution; Disciplinary action; Tenancy application refused; RTB application rejected; Council property recovered; Council Tax Reduction Scheme penalty; Blue Badge warning) | 38                 | 68                | <b>35</b>                   |
| Number of council properties recovered (included above)   | 5                  | 20                | <b>18</b>                   |
| Number of Proceeds of Crime   | New target         | 14                | <b>4</b>                    |

|  |            |          |                |
|--|------------|----------|----------------|
| Act cases closed   |            |          |                |
| Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation              | £148,287   | £100,000 | <b>£45,000</b> |
| Receipt from Court ordered confiscation or compensation as the result of a Proceeds of Crime Act financial investigation | New target | £50,000  | <b>£16,368</b> |

11.2 The number of cases closed following an investigation up to 31 March 2018 was 259. Of these the number where fraud was proved on the balance of probabilities was 54. The actual fraudulent loss incurred by the Council arising from those cases totals £249,356.

11.3 In addition to the actual loss, notional savings of £551,800 have been identified, as detailed below:

### **Council Tenancies (Notional Savings £342,000)**

11.4 In their Protecting the Public Purse 2012 publication the Audit Commission identified an average annual notional cost of £18,000 to house a family or individual in temporary accommodation. This average notional cost has been used to estimate the nominal cost to the public purse of housing a tenancy fraudster.

11.5 The 18 council tenancies recovered and 1 tenancy application refused following investigation releases accommodation for those with a genuine need and providing a notional saving of £324,000.

### **Right to Buy refused (Notional Savings £209,800)**

11.7 The prevention of 2 Right to Buy applications represents a notional saving of £209,800. The maximum discount that could have been applied (£104,900). This also protects the assets for those with a genuine need.

### **Investigations Case Study**

11.6 An example of a recent successful high profile prosecution. The investigation team identified an Ealing property on an online rental website offering rental of a one bedroom flat. Investigation ensued and confirmed that the tenant was subletting the property for three times what he paid to the council in rent. A successful prosecution ensued and the tenant was ordered to pay an unlawful profit order of £1,901 plus £1,750 in costs. This case attracted media attention, which it is hoped will also act to deter others from subletting.

### **Targets**

11.8 As mentioned at the previous Committee, there is a need to review the targets. Linking to the fraud strategy and as reflecting in the proactive plan, priorities are to the proactive work, with the aim of preventing fraud before it happens

11.9 Areas such as tenancy have been reprioritised. Whilst the service did not achieve the target of 20, it is important to consider that for the year the Council has achieved 18 recoveries exceeding the annual total of 5 achieved in 2016/17.

11.10 As a basis for future targets, it being proposed that we utilised the 2017/18 outcomes.

## **12. Financial**

12.1 All investigations activity covered in this report is being delivered within the Audit & Investigations budget.

## **13. Legal**

13.1 Counter Fraud work is carried out in compliance with criminal and civil law and criminal investigation procedures relevant to investigation work including: the Police and Criminal Evidence Act (PACE) 1984, the Criminal Procedure and Investigations Act (CPIA) 1996, the Human Rights Act 1998, the Regulation of Investigatory Powers Act (RIPA) 2000, the Anti-Terrorism Crime and Security Act 2001, the Public Interest Disclosure Act 1998 and relevant Employment Law, Fraud Act 2006, Proceeds of Crime Act 2002.

## **14. Value for Money**

14.1 Value for money reviews have been identified within the audit plan.

## **15. Sustainability Impact Appraisal**

15.1 Not applicable.

## **16. Risk Management**

16.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

## **17 Community Safety**

17.1 Not applicable.

## **18 Links to Strategic Objectives**

18.1 The issues outlined in this report have a particular focus on the Council's organisational improvement objective 'Becoming a high performing organisation, focused on the needs of its communities'.

## 19 Equalities and Community Cohesion

19.1 Not Applicable.

## 20 Staffing/Workforce and Accommodation implications

20.1 None.

## 21 Property and Assets

21.1 Not applicable.

## 22 Any other implications

22.1 None.

## 23 Timetable for Implementation

23.1 Not applicable.

## 24 Appendices

24.1 None.

## 25 Background Information

25.1 Details of internal audit reports are available to Members upon request from Mike Pinder, Head of Internal Audit & Investigations, [pinderm@ealing.gov.uk](mailto:pinderm@ealing.gov.uk).

### Consultation

| Name of Consultee   | Department                                | Date sent to consultee | Date response received from consultee | Comments appear in report para: |
|---------------------|---|------------------------|---------------------------------------|---------------------------------|
| Ian O'Donnell       | Executive Director of Corporate Resources | 11/5/2018              |                                       | Throughout                      |
| Ross Brown          | Director of Finance                       | 10/5/2018              | 10/5/2018                             | Throughout                      |
| Cllr Bassam Mahfouz | Portfolio Holder – Finance and Leisure    |                        | N/a                                   |                                 |

### Report History

|                               |   |                  |                   |
|-------------------------------|---|------------------|-------------------|
| Decision type:                | Urgency item?   |                  |                   |
| For information               | No  |                  |                   |
| Authorised by Cabinet member: | Date report drafted:                                  | Report deadline: | Date report sent: |
| Report no:                    | Report author and contact for queries:                |                  |                   |
|                               | Mike Pinder, Head of Audit & Investigations, ext 5792 |                  |                   |



|  |   |
|--|---|
| <b>Contains confidential or exempt information</b> | <b>Yes – Appendix A and Appendix C pursuant to paragraphs 3 &amp; 5 of Schedule 12A of the Local Government Act 1972.</b> |
| <b>Subject of report</b>                           | Risk Management Performance Report – Quarter 4 2017/18  |
| <b>Responsible officer</b>                         | Ross Brown, Director of Finance<br>Mike Pinder, Head of Audit & Investigations  |
| <b>Author</b>                                      | Ewan Taylor, Audit & Risk Manager, ext.9991<br><a href="mailto:taylor@ealing.gov.uk">taylor@ealing.gov.uk</a>             |
| <b>Portfolio</b>                                   | Cllr Bassam Mahfouz - Finance & Leisure   |
| <b>For consideration by</b>                        | Audit Committee   |
| <b>Date to be considered</b>                       | 30 <sup>th</sup> May 2018   |
| <b>Implementation Date if Not Called In</b>        | N/A   |
| <b>Affected Wards</b>                              | All   |
| <b>Keywords/Index</b>                              | Strategic Risk Management   |

#### **Reason for report**

This report provides Audit Committee with an update in respect of the review by Corporate Board of strategic risks facing the council as at the end of Q4, 2017/18

### **1. Recommendations**

- 1.1 It is recommended that Audit Committee considers the current Strategic Risk Register (Appendix A) to assure itself that it includes all appropriate strategic risks facing the council and that all necessary and appropriate actions are being taken to safeguard the council's business and reputation.

### **2. Reason for recommendation and options considered**

- 2.1 This is a periodic report to update Audit Committee on the strategic risks facing the council; no decision is required.

### 3. Key implications

#### 3.1 Roles and Responsibilities

3.1.1 The Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards 2017 require the council to maintain a robust, adequate and effective system of risk management in its delivery of core services. Operation of an effective and embedded risk management framework is an important element of such a system so that the council effectively discharges its corporate governance responsibilities.

3.1.2 Corporate Board is responsible for reviewing the Strategic Risk Register, ensuring that the management of risk continues to be within the council's risk appetite. Audit Committee is responsible for considering the effectiveness of the council's strategic risk management arrangements. The Strategic Risk Register was reviewed by Corporate Board on 27<sup>th</sup> February 2018.

#### 3.2 Strategic Risk Register (SRR)

3.2.1 The council's strategic risks documented in the SRR are determined by Corporate Board and comprise key inherent, transitory and emerging risks which either:

- significantly affect the council's ability to achieve the Borough's long-term strategic objectives and priorities which are set out in the Corporate Plan;
- are relevant and important to all or most of the council's services and functions;
- are external to the council but which have potential significant impacts on the Borough, or parts of the Borough, as a whole; or
- have potentially severe reputational consequences should they materialise.

3.2.2 In addition, the SRR will include any Directorate or Department risks that have a high residual risk rating (total risk score of 20 and above), but which are not already linked to, and part of, a strategic risk. There are no risks of this nature in the current SRR.

3.2.3 The current SRR contains 17 risks. The total number of risks remains the same, during the quarter.

3.2.4 The residual risk ratings are summarised below. There have been no changes to the ratings since the end of Q3.

**Table 1: Strategic Risks Residual Ratings**

| <b>Residual Rating</b> | <b>Strategic Risks as at end of Q4 2017/18</b> | <b>Strategic Risks as at end of Q3 2017/18</b> |
|------------------------|--|--|
| <b>High</b>            | 2  | 2  |
| <b>Medium</b>          | 12   | 12   |
| <b>Low</b>             | 2  | 2  |
| <b>Emerging</b>        | 1  | 1  |
| <b>Total</b>           | <b>17</b>                                      | <b>17</b>                                      |

3.2.5 Two of the strategic risks (on page 1 and 3 of the SRR), the risks have been updated to reflect the current position, however the risk scores are unchanged since the last quarter, and they continue to have a High residual risk:

- ISR0001: The council is no longer in receipt of central government revenue support grant. The council's baseline funding position is now reliant on retained business rates and council tax income; and
  - The rating of Risk ISR0008 is the result of the uncertainty of whether the ongoing pressures on the provisions of services will result in further significant budget overspending. The regular monitoring of financial performance will enable Corporate Board to assess likely year end outcomes and determine if further actions are needed to address any particular pressure points. Actions in progress relating to this risk have been updated.
- 3.2.6 The residual risk scores and Medium risk ratings of 12 of the remaining 15 strategic risks, (on pages 4 to 20 of the Register) are also unchanged: In most cases, either:
- Actions are being taken by services to develop or enhance the control measures that mitigate the risks. Once implemented, these will have the effect of lowering the impact and likelihood risk scores; or
  - The risks are being addressed as part of the Future Ealing programme.
- 3.2.7 In three instances, though the ongoing controls being exercised by the services do not mitigate the residual risk to a below Medium rating, no further cost effective enhancements to controls can be developed. In these circumstances, Corporate Board has previously agreed to tolerate the Medium level risk rating and will be reviewing this at the meeting on 26<sup>th</sup> June 2018. The three risks are:
- ISR0004 (page 15), death, serious injury or abuse of a child or vulnerable adult in the care of Ealing Council;
  - ISR0006 (page 18), persons within the Borough become radicalised and are attracted to recognised terrorist organisations and/or the Borough is affected by terrorist activities; and
  - ISR0014 (page 12), a reduction in the supply and lack of availability of affordable housing in the Borough as a result of the implementation of the Welfare Reform Act 2012 and the Housing and Planning Act 2016.
- 3.2.8 Until the ICT enhanced disaster recovery arrangements are fully in place the risk scores and Medium risk rating of ISR0010 (Inability to provide critical council services in the event of a significant disruption) remain unchanged.

#### **4. Financial**

- 4.1 A number of risks on the SRR have the potential for significant financial impact and this is articulated within each individual risk description and managed through the control measures which are in place and monitored by the control owners. All financial risks of a material or significant nature such as those set out in this report and appendices are either monitored through the regular Finance monitors to Corporate Board and Cabinet or considered as part of the Budget Strategy.

#### **5. Legal**

- 5.1 The Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards 2017 require the council to maintain a robust, adequate and effective system of risk management in the delivery of its core services.

An embedded risk management culture and effective risk management processes support good governance, the council's delivery on its duty of care and successful delivery of the council's objectives

## **6. Value for money**

- 6.1 Good risk management is a key contributor to successful delivery of the council's objectives protecting its assets and resources to deliver value for money

## **7. Risk management**

- 7.1 Good risk management enables the council to optimise its opportunities and minimise the potential for adverse service, financial, legal or reputational outcomes in delivery of its strategic priorities and objectives

## **8. Community safety**

- 8.1 Effective management of risk seeks to protect the council's assets and resources and the local community from harm

## **9. Links to the 6 Priorities for the Borough**

- 9.1 The effective identification, assessment and management of risk is an important foundation to the successful achievement of strategic objectives in terms of managing resources effectively. Strategic risks affect all six priorities of the Long Term Plan meaning that embedded risk management is important to the council.

## **10. Equalities and community cohesion**

- 10.1 No equality impact assessment has been undertaken as the report is for information and does not affect the general duties of the Equality Act 2010.

## **11. Staffing/workforce and accommodation implications:**

- 11.1 None

## **12. Property and assets**

- 12.1 None

## **13. Any other implications:**

- 13.1 None

## **14. Consultation**

- 14.1 Not applicable

## 15. Timetable for implementation

15.1 Not applicable

## 16. Appendices

- Appendix A: Q4 Strategic Risk Register (Confidential)
- Appendix B: Q4 Risk Heatmap
- Appendix C: Q4 Risk Matrix Score Definitions (Confidential)

## 17. Background Information

17.1 None

### Consultation

| Name of consultee   | Post held                                 | Date sent to consultee | Date response received from consultee | Comments appear in paragraph: |
|---------------------|---|------------------------|---------------------------------------|-------------------------------|
| <b>Internal</b>     |   |                        |                                       |                               |
| Ian O'Donnell       | Executive Director of Corporate Resources | 04/05/18               | 04/05/18                              | Throughout                    |
| Ross Brown          | Director of Finance (Deputy s151 Officer) | 03/05/18               | 04/05/18                              | Throughout                    |
| Cllr Bassam Mahfouz | Portfolio holder – Finance & Leisure      |                        |                                       |                               |

### Report History

| Decision type:   | Urgency item? |
|--|---------------|
| For Information  | No            |
| Report no.: Report author and contact for queries:<br>Ewan Taylor – Audit and Risk manager ext. 9991 |               |



## Controlled Profile



# Uncontrolled Profile

|            |             | Impact     |       |                  |                           |   |
|------------|-------------|------------|-------|------------------|---------------------------|---|
|            |             | Negligible | Minor | Moderate         | Major                     | Extreme   |
| Likelihood | Very Likely | GREEN      | AMBER | AMBER<br>CHR0002 | RED<br>ISR0006<br>ISR0009 | RED<br>ISR0001 ISR0002<br>ISR0003 ISR0004<br>ISR0007 ISR0008<br>ESR0001 |
|            | Likely      | GREEN      | AMBER | AMBER            | RED<br>ISR0005            | RED<br>ISR0010 ISR0011<br>ISR0012 ISR0013<br>ISR0014<br>TSR0001         |
|            | Possible    | GREEN      | GREEN | AMBER            | AMBER                     | RED   |
|            | Unlikely    | GREEN      | GREEN | GREEN            | AMBER                     | AMBER   |
|            | Rare        | GREEN      | GREEN | GREEN            | GREEN                     | AMBER   |

## Detailed Risk Information

| Controlled Rating | Uncontrolled Rating | Risk Ref | Details  |
|-------------------|---------------------|----------|--|
| 20                | 30                  | ISR0001  | Reduction in central government grant and changes to Business Rates, including the 2017 revaluation, appeals changes and future retention plans, results in a significant reduction in the amount of Grant and Business Rate income receivable that has not been planned for.  |
| 20                | 30                  | ISR0008  | Demographical and government policy changes are causing increasing and unavoidable service demands which can lead to severe budgetary pressures and significant overspends which consequently need to be addressed by corporate funding.   |
| 16                | 25                  | TSR0001  | Failure to meet statutory obligations under Education Act 1996 S14 (1) to secure sufficient Primary and Secondary School Places in the Borough   |
| 16                | 25                  | ISR0010  | Inability to provide critical council services in the event of a significant disruption  |
| 15                | 24                  | ISR0009  | Breach of statutory information legislation or Ealing information policies leading to complaints, loss of information, adverse publicity and potential enforcement or fines  |
| 15                | 25                  | ISR0012  | Delivery of council services severely disrupted as a result of the failure of, or poor performance by, a key contracted provider   |
| 12                | 30                  | ISR0004  | Death, serious injury or abuse of a child or vulnerable adult in the care of Ealing Council  |
| 12                | 24                  | ISR0006  | Persons within the Borough become radicalised and are attracted to recognised terrorist organisations and/or the Borough is affected by terrorist activities.  |
| 12                | 30                  | ISR0007  | Technological advancements provide the opportunity for greater automation of routine Council processes but increase the possibility of successful and sustained cyber-attacks resulting in an inability to function, possible loss of data and/or fraud  |
| 12                | 25                  | ISR0013  | Breach of Health & Safety legislation in relation to staff/service occupied, leased, tenanted or vacant Council properties that could lead to: <ul style="list-style-type: none"> <li>injury or death of staff, residents, service users or visitors;</li> <li>damage to property; and</li> <li>enforcement action against the Council</li> </ul>                          |
| 12                | 30                  | ISR0002  | The Council has not implemented effective policies or strategies to address local issues and conditions that have a long-term detrimental impact on the environment within the Borough, eg. air pollution; flooding, carbon footprint.   |
| 12                | 30                  | ISR0003  | Creating the right conditions for economic growth is not balanced by the creation of mitigating strategies to counter the negative consequences of that growth, eg. rising house prices and their negative effect on affordable housing  |
| 12                | 25                  | ISR0014  | A reduction in the supply and lack of availability of affordable housing in the Borough as a result of the implementation of the Welfare Reform Act 2012 and the Housing and Planning Act 2016   |
| 9                 | 20                  | ISR0005  | Failure to fulfil the Council's obligations under the Equality Act 2010 leads to legal challenges to service changes, the incurring of legal fees, potential fines or penalties and reputational damage  |
| 9                 | 25                  | ISR0011  | A failure to provide appropriate support to residents, businesses, visitors or staff, in the event of a major incident, as a result of ineffective emergency response arrangements.  |
| 15                | 18                  | CHR0002  | Inability to attract or retain staff with the right skills, experience and capabilities to deliver the council's vision and Future Ealing outcomes.  |
|                   | 30                  | ESR0001  | Brexit<br>The UK leaving the European Union may have significant consequences that impact locally on the Council and the Borough, for example: <ul style="list-style-type: none"> <li>a reduction in overall public funding (particularly EU funding streams);</li> <li>EU migrant workforce issues</li> <li>a rise in hate-crime</li> <li>increasing inflation</li> </ul> |

